



# Pangolin Investment Management

## Pangolin Asia Fund February 2011 NAV

As at the 28<sup>th</sup> of February 2011 the NAV of the Class A shares of the Pangolin Asia Fund was US\$258.03 net of all fees and expenses, down 1.46% from US\$261.86 in January. Please see the table at the end of this letter for further detail.

As of today, the fund is just about 70% invested, with the split being approximately as follows:

Indonesia	47%
Malaysia	22%
Singapore	21%
Thailand	10%

Details of the individual holdings are always available to investors on request.

### Overview

Investors have been given a reminder that developing nations' politics can have a large impact on their economies and as a result we have been seeing profit-taking in the markets in which the fund invests. It is also the results season and on the whole the companies in which we have an interest have reported in-line or slightly better than expected profits; but a couple have been underwhelming and in their cases the market has been unforgiving.

We have been taking advantage of conditions to increase our holdings and, by our standards, have been reasonably active in the market (as buyers). However due to subscriptions and dividends our cash level has remained fairly constant.

### Outlook

Our favourite sector is the consumer sector. We are great believers in the growth of the Asian consumer and thus the fund is weighted accordingly. Things don't move in a straight line and obviously there are times when consumer companies' margins decline as input costs rise. In a region where many survive on a couple of \$\$ a day, a large jump in the price of food will have a similarly negative effect on disposable incomes. Therefore unless commodity prices start falling soon, we would expect margins in the consumer sector to remain under pressure for a while.

However, in a region that is also a producer of palm oil, rubber, coal etc. it is clearly not all bad news. I read yesterday that there isn't enough coffee in the world which is great if you are a Sulawesi coffee farmer. Today you might have a bit less cash in your pocket because of inflation but come harvest time that shiny new Yamaha you've been coveting will be yours.

My estimate is that about half of Indonesians benefit from higher commodity prices while the rest suffer. Overall they are beneficial to that economy, driving FDI and incomes. The good news is that **Indonesia** is also now attracting decent non-resource investment. Manufacturers have decided that Indonesia is a serious place and L'Oreal have announced that they will be building their largest factory anywhere just outside Jakarta.

The petrol price increase is not such good news as both Malaysia and Indonesia import fuel and subsidise it. In **Malaysia** the subsidies have been coming off but with one eye on an election the government is probably happier to run up the deficit a bit more rather than raise prices again; and in Indonesia the price increases seem to be getting postponed for one reason or another.



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It does look like the ruling coalition will be returned to power in Malaysia and, if so, we can probably expect the Najib regime to continue with its reform policies. These would include the introduction of GST and further subsidy cuts, measures most investors would welcome.

As mentioned above, the focus of the fund has always been the Asian consumer. It is such a good story and is, in many cases, still available at ridiculously cheap prices. We couple this with a longer term view than some and we believe that short-term pain generally leads to buying opportunities. I have stated in previous newsletters that 2011 might prove to be a difficult year for the fund to make money (but we'll try), especially if the hot money that has been chasing ASEAN consumers decides to go elsewhere.

At Pangolin we welcome falling prices, have plenty of cash and remain busily committed to visiting as many companies as practicable in order to unearth new ideas. As I have stated in previous letters, paying the right price is what drives returns; if the right price isn't available we'll either wait or look at something else.

I've just finished reading *How the West Was Lost* by Dambisa Moyo. She summarises beautifully and scarily where the developed world has gone wrong, while making a fairly strong argument for the shift in global economic power to carry on. My one criticism is that she has perhaps not grasped the developing world's propensity to copy the West's mistakes. Nevertheless, as Asia is still light years away from paying people to sit at home and drink lager all day, one can expect its economic growth rates to continue to outstrip the West's.

James Hay  
9<sup>th</sup> March 2011

*I don't like to discuss stocks publicly but I am always happy to talk to existing investors and those interested in the fund. If you have any questions, concerns, ideas, or just fancy an argument, please get in touch.*

Year	Details	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	Nav	261.86	258.03											-4.25%
	% chg	-2.82%	-1.46%											
2010	Nav	201.91	205.09	213.68	227.44	213.93	227.45	234.62	238.78	253.28	258.37	260.53	269.47	37.58%
	% chg	3.08%	1.57%	4.19%	6.44%	-5.94%	6.32%	3.15%	1.77%	6.07%	2.01%	0.84%	3.43%	
2009	Nav	95.67	96.38	98.12	133.22	145.25	151.32	159.71	167.99	173.21	174.49	182.6	195.87	95.34%
	% chg	-4.59%	0.74%	1.81%	35.77%	9.03%	4.18%	5.54%	5.18%	3.11%	0.74%	4.65%	7.27%	
2008	Nav	157.49	156.55	150.63	154.03	146.18	136.23	132.58	125.09	113.55	90.36	85.98	100.27	-38.81%
	% chg	-3.89%	-0.60%	-3.78%	2.26%	-5.10%	-6.81%	-2.68%	-5.65%	-9.23%	-20.42%	-4.85%	16.62%	
2007	Nav	136.43	140.75	144.17	153.68	157.9	159.36	159.56	150.23	158.13	163.17	160.72	163.86	27.19%
	% chg	5.90%	3.17%	2.43%	6.60%	2.75%	0.92%	0.13%	-5.85%	5.26%	3.19%	-1.50%	1.95%	
2006	Nav	104.53	106.09	109.42	116.62	108.82	106.34	107.96	110.76	112.41	117.94	125.81	128.83	31.74%
	% chg	6.89%	1.49%	3.14%	6.58%	-6.69%	-2.28%	1.52%	2.59%	1.49%	4.92%	6.67%	2.40%	
2005	Nav	99.24	99.37	97.77	98.86	96.77	97.05	100.14	94.9	96.99	97.05	96.14	97.79	-2.57%
	% chg	-1.13%	0.13%	-1.61%	1.11%	-2.11%	0.29%	3.18%	-5.23%	2.20%	0.06%	-0.94%	1.72%	
2004	Nav												100.37	0.37%
	% chg													

Best monthly return            35.77%  
Worst monthly return        -20.42%  
Maximum drawdown         -47.53%  
% of positive months        69.33%